

Message Text

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ACTION OPIC-12

INFO OCT-01 NEA-10 ISO-00 INT-08 AID-20 CIAE-00 COME-00

EB-11 FRB-02 INR-10 NSAE-00 TRSE-00 XMB-07 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 L-03 /097 W

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FM AMEMBASSY KABUL

TO SECSTATE WASHDC 5792

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PASS OPIC

E.O. 11652: N/A

TAGS: EFIN, BGEN, AF

SUBJECT: GENESCO-YAQUB TANNING PROJECT

1. SUMMARY: TANNERY PROJECT NOW READY TO BEGIN OPERATION, BUT STILL LACKS LICENSE DUE TO CERTAIN CONFLICTS WITHIN AFGHAN GOVERNMENT, AND LACK OF AGREEMENT BETWEEN GENESCO, GOA, AND OTHER PARTIES AS TO TERMS OF GENESCO PARTICIPATION. END SUMMARY.

2. IN WEEKS SINCE OPIC OFFICER COUNTS LEFT, YAQUB BROTHERS PROCEEDED WITH EFFORTS TO OPEN TANNERY. PHYSICAL PLANT WAS COMPLETED, INDIAN TANNERY EXPERT ARRIVED AND ON PAYROLL, BUT GOA HAS NOT RPT NOT RELEASED GENESCO MONEY FOR PURCHASE OF SKINS PENDING FINAL APPROVAL OF LICENSE. MAJOR SNAG WAS ANNOUNCED INTENTION OF GOA TO CHANGE INVESTMENT LAW TO REQUIRE MAJORITY AFGHAN PARTICIPATION (51 PERCENT -- 49 PERCENT) IN ALL NEW PROJECTS. THERE WAS SOME INITIAL HOPE THAT ALL PARTIES WOULD AGREE TO 11 PERCENT EQUITY PARTICIPATION BY INDUSTRIAL DEVELOPMENT BANK OF AFGHANISTAN (IDBA) BUT GENESCO REPORTEDLY UNWILLING. YAQUBS SOUGHT AND OBTAINED FROM PRIME MINISTER'S

OFFICE A DECRESS AFFIRMING THE PREVIOUS APPROVAL OF THIS PROJECT ON THE BASIS OF 60 PERCENT FOREIGN (GENESCO) PARTICIPATION.(COPIES BEING POUCHED).

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3. ON THE BASIS OF THIS DECREE, YAQUBS OBTAINED IMPLEMENTING LETTER FROM MINISTRY OF MINES & INDUSTRIES (COPIES BEING POUCHED) WHICH WAS SENT TO NATIONAL BANK TO ALLOW DISBURSAL OF FUNDS. THE SECOND PARAGRAPH OF THIS LETTER NOTED, HOWEVER, THAT QUOTE IT IS EXPECTED ... THAT YOU WILL BE ABLE TO HAVE MORE SHARES DURING THE NEXT TWO-THREE YEARS ... SO AS TO HAVE 51 PERCENT AFGHAN SHARES AND 40 PERCENT FOREIGN SHARES END QUOTE. MINISTRY OF FINANCE (DIRECTING BANK) BALKED AT THIS LETTER, HAS SENT A LIST OF QUESTIONS TO THE MINISTRY OF MINES & INDUSTRIES AND HAS REQUIRED AN ANSWER BEFORE IT WILL RELEASE THE MONEY OR APPROVE THE LICENSE. AS OF NOVEMBER 12, THE MINISTRY OF MINES & INDUSTRIES HAS NOT RPT NOT REPLIED TO FINANCE'S QUESTIONS. EMBASSY HAS NOT RPT NOT SEEN QUESTIONS.

4. ON SUNDAY, NOVEMBER 4, BALBIR MATHUR, GENLEATHER PRESIDENT, APPEARED WITH ASSOCIATE TO QUOTE WRAP THINGS UP END QUOTE. ON MONDAY HE MET WITH OPIC COUNSEL TARAKI TO ASCERTAIN WHAT DOCUMENTS WOULD, UNDER AFGHAN LAW, APPEAR TO SATISFY THE CONDITIONS PRECEDENT (CD'S) OF THE OPIC LOAN FOR THIS PROJECT. ON TUESDAY, MATHUR, MIR AHMAD, YAQUB AND GENLEATHER REP GORRILL MET WITH EMBOFFS TO DISCUSS STATUS OF PROJECT. MATHUR CONFIRMED THAT GENESCO WAS UNWILLING TO TAKE MINORITY POSITION WITH IDBA PARTICIPATION WHILE CONFORMING TO OPIC PROPOSED SALES AGREEMENT IN WHICH GENESCO GUARANTEES 100 PERCENT PURCHASE OF YAQUB PRODUCTION. SINCE OPIC LOAN MORE IMPORTANT THAN IDBA TO PROJECT, HE WAS PREPARED TO PROCEED WITHOUT IDBA PARTICIPATION IN ANY FORM. GENESCO, HE FELT, WOULD BE ABLE TO LOAN OPERATING FUNDS IF NECESSARY. HE STATED THAT GENESCO PREPARED TO ACCEPT OPIC PROPOSED TEN-YEAR SALES AGREEMENT IF GOA HAD INDEED AFFIRMED ACCEPTABILITY OF 60-40 FOREIGN PARTICIPATION. HE STATED THAT OPIC LOAN WAS APPROVED SUBJECT TO CD'S, WHICH HE FELT REQUIRED NOT ONLY A LEGAL DETERMINATION BUT ALSO A POLITICAL-ECONOMIC DETERMINATION BY EMBASSY AS TO VIABILITY OF PROJECT. HE STATED THAT THIS WAS AS IMPORTANT TO GENESCO AS TO OPIC. MATHUR READ PARA TWO OF MINES & INDUSTRIES LETTER (ABOVE) APPARENTLY FOR FIRST TIME. HE DECLARED THAT THE 2-3 YEAR PHRASE WAS UNACCEPTABLE, EVEN IF PHRASED AS A SUGGESTION. HE INTERPRETED OPIC LOAN REQUIREMENTS AS DISALLOWING ANY BASIC CHANGE IN PROJECT FOR LIFE OF OPIC LOAN (10 YEARS) AND ASSERTED THAT HE WOULD THAT DAY SEE RESPONSIBLE OFFICIAL AT MINES & INDUSTRIES TO GET LETTER CHANGED TO REFLECT 10-YEAR STATUS OF AGREEMENT.

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5. NEITHER MATHUR NOR YAQUB REPORTED RESULTS THAT MEETING. ON NOVEMBER 12 EMBOFF CALLED YAQUBS AND LEARNED THAT: (A) MINES & INDUSTRIES REFUSED TO CHANGE LETTER, INSTEAD INDICATED THAT THEY CONSIDERED IT AN ORDER, NOT A SUGGESTION, AND THE TIME GIVEN A MAXIMUM; (B) MATHUR TOLD YAQUBS THAT GENESCO COULD NOT RPT NOT PARTICIPATE ON BASIS OF 3-YEAR MAJORITY AND 10-YEAR SALES AGREEMENT, BUT THAT HE THOUGHT A NEW AGREEMENT COULD BE WORKED OUT WITH AN

INITIAL 49-51 PERCENT PARTICIPATION BUT A MUCH LESS RESTRICTIVE SALES AGREEMENT; (C) MATHUR LEFT FOR NEW YORK ON NOVEMBER 8 AND WILL MEET THERE WITH JOHN KING OF GENESCO'S WOOD & HYDE AND WITH NOOR AHMAD YAQUB. THEY SUBSEQUENTLY WILL CONTACT OPIC WITH A PROPOSAL.

6. EMBASSY AT THIS POINT UNABLE TO RECOMMEND THAT OPIC PROCEED WITH LOAN AND/OR GUARANTEE FOR THIS PROJECT WITHOUT MOST THOROUGH RE-EXAMINATION AFTER FINAL FORM OF PROPOSAL IS AGREED UPON BY ALL PARTIES. TWO CONSIDERATIONS FORCE THIS RECOMMENDATION. FIRST, THE APPARENT CONFLICT WITHIN THE GOA CONCERNING DESIRABILITY FOREIGN INVESTMENT (E.G., THE INSISTENCE ON MAJORITY AFGHAN PARTICIPATION), PLUS OTHER INDICATIONS OF SUSPICION AND DISTRUST OF PRIVATE BUSINESS COMMUNITY RAISE OBVIOUS CONCERN ABOUT THE POLITICAL RISKS IN SUCH A VENTURE. SECOND, THE EXTENT TO WHICH BOTH GENESCO AND THE YAQUBS ARE DEPENDENT ON (INSURED) LOANS FOR THEIR PARTICIPATION IN THE VENTURE BEGINS TO RAISE SOME QUESTIONS AS TO THEIR LONG-TERM COMMITMENT TO THE PROJECT. DESPITE THIS, THE EMBASSY CONTINUES TO BELIEVE THAT THE BASIC IDEA OF THE PROJECT IS GOOD. IT ANSWERS A WORLD-WIDE NEED FOR PROCESSED SKINS FOR LEATHER, IT PROVIDES AFGHANISTAN WITH INCREASED VALUE-ADDED EXPORTS AND COULD BE A FORE-RUNNER FOR A MAJOR NEW INDUSTRY, AND THE PARTIES TO THE VENTURE APPEAR TO HAVE THE KNOW-HOW AND CONNECTIONS HERE TO MAKE IT WORK. IT IS POSSIBLE THAT THE GOA DELAYS ON THIS PROJECT ARE NOTHING MORE THAN BUREAUCRATIC INFIGHTING AND THAT GENESCO AND THE YAQUBS ARE DEEPLY COMMITTED. IF THE NECESSARY GOVERNMENT PERMITS AND LICENSES ARE ISSUED ON THE BASIS OF A NEW JOINT VENTURE AGREEMENT, AND OPIC IS SATISFIED THAT THE TERMS OF THE NEW AGREEMENT SATISFACTORILY DEMONSTRATE THE PARTIES' WILLINGNESS TO MAKE THIS A LONG-TERM PROJECT, THEN THE EMBASSY WOULD BE PREPARED TO MAKE A MORE DEFINITE ASSESSMENT OF THE POLITICAL RISK INVOLVED.

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